

A Work Project, presented as part of the requirement for the Award of a Masters Degree
in Management from the Faculdade de Economia da Universidade Nova de Lisboa

Report

“PAPO D’ANJO - INTERNATIONAL STRATEGIC IMPLEMENTATION PLAN TO BRAZIL”

Tomás Manuel Macedo Lousada Loureiro Pipa

Number 590

A Project carried out on the Management course, with the supervision of:

Professora Sónia Dahab

Professor Filipe Castro Soeiro

6th June 2011

Index

Abstract	2
Firm's Description	3
History of Papo D'Anjo	3
Organization Structure	4
Production Process.....	5
Market Distribution.....	5
SWOT Analysis.....	5
TOWS Analysis.....	9
Strategic Objectives.....	10
Brazil Expansion	11
Environmental Context	11
Analysis of the Brazilian Textile Sector	12
Competitive dynamics of the Textile Sector in Brazil.....	14
Incoming Domestic sectors and Competition	15
Brazilian Luxury Consumer	16
Brazilian Children's Luxury Market	17
The Brazilian Luxury Young Consumer.....	18
Children and Parents of the 21 st century	19
Mode of Entry	20
Joint Venture	21
Implementation Plan.....	23
Conclusion	24
References.....	25

Abstract

The objective of my work is to help a Portuguese company, Papo D'Anjo, to achieve its strategic goals by elaborating an International Strategic Implementation Plan to enter into Brazil.

In order to succeed in this Strategic Plan I have studied the history of the company, the way it is organized, its production process, its revenues and market distribution. I did a SWOT and a TOWS analysis.

Regarding the chosen market, Brazil, I did a PEST analysis to better understand it and I also conducted a detailed research into the Brazilian Textile Sector, the Luxury Children Clothes Market segment and the way the Brazilian luxury consumer behaves. After the studies and analyses that I mentioned before, I concluded the best way for Papo D'Anjo to enter the Brazilian market.

Key words: Brazil, Luxury Market, Papo D'Anjo, Children

Firm's Description

Papo D'Anjo is a Portuguese brand of clothes for children aged 6 to 14 years old. It is perceived as a high quality and classic brand. Papo D'Anjo's prices can be very competitive considering that the brand is competing in the high-end children apparel market. (i.e. a Papo D'Anjo's girl dress costs US\$ 180 compared to Christian Dior's where a similar dress costs US\$220 in average)

Most of the fabrics are supplied from the best factories in Europe (i.e. Liberty in London) and from Asia (namely the cashmere from China).

The main distribution channels¹ of Papo D'Anjo are the website & catalog, trunk shows, wholesales business and Papo D'Anjo store in Lisbon

The mission of the brand is to provide high quality European and classic children clothes and the aim is to be a reference in the high-end children apparel within five years. The *mantra* of Papo D'Anjo is also very clear: "Classic European clothes".

History of Papo D'Anjo

Papo D'Anjo was founded in 1995 by Catherine Monteiro de Barros when she found "a need" in the American market. She found that if a mother wanted to dress her children with classic and European outfits, she couldn't find any brand in US that would offer those clothes. Papo D'Anjo began the business by selling their products (clothes) in trunk shows and to specialist retailers.

In 1996 Papo D'Anjo opened the first store in Madrid. In 2001 and in 2003, the brand opened the first Portuguese stores in Oporto and Lisbon. In 2006, Papo D'Anjo began a

¹ More information in the appendix

partnership with *El Corte Inglés* and opened the first department store in one of the *El Corte Inglés* of Madrid. It was also in 2006 that Papo D'Anjo opened the distribution center in St.Paul Minnesota, in order to supply more efficiently the North-American market.

Several events marked Papo D'Anjo in 2009: the closing of Madrid's store related to the opening of the *El Corte Inglés* corner in 2006 in a better localization, the opening of the first "corner" in Harrods, London and the opening of the brand first corner in *El Corte Inglés*, Lisbon. The year of 2010 was marked by the opening of the brand's corner in Bergdorf Goodman in New York.

Organization Structure²

The founder, Catherine Monteiro de Barros, is the most important person in the company. Besides being the founder, Catherine is also President and Creative Director of the brand. Catherine lives in London and works directly with a Creative Designer in her London office. Together they are responsible to create new designs for Papo D'Anjo.

Vera D'Orey is the Managing Director and coordinates the business from Portugal. In the Portuguese office there is also a Financial Department with four employees, a Procurement Department with two employees, a Production Department with three employees and a Customer Service with fifteen employees. Next to the office there is a warehouse with four more employees that store all the products of Papo D'Anjo while are not shipped to their final destinations. Papo D'Anjo has also one person that coordinates all the three corners of the brand in all *El Corte Inglés* in Spain. In the Lisbon's store there are two more employees to serve general public.

² See exhibit 1 in appendix

Production Process³

As mentioned before, new clothes' designs are created in London by Catherine and the brand's Creative Designer, and are then sent to Lisbon. At that point, the high quality textiles are ordered from Europe and Asia. When the fabrics arrive to Papo D'Anjo warehouse in Lisbon, they are sent together with the drawings to some factories in the North of Portugal or to a small network of sewing ateliers coordinated by an expertise lady. Finally, the products are stored in Lisbon's warehouse while are not shipped to their final destinations.

Market Distribution⁴

In 2009, Papo D'Anjo total sales were divided as follows: 86% from the United States, 6% from Portugal, 4% from Spain, 3% from the United Kingdom and 1% from the Rest of the World.

Regarding sales per channel⁵, in that same year, 47% was generated by Trunk Shows, 37% by the website & Catalog's sales, 10% by the wholesales businesses and the remaining 6% came from other retail channels (Lisbon store, outlet store in Madrid and web outlets).

Regarding the last revenues⁶ we can conclude that – apart from 2009 when the financial crisis hit the world - the company is consistently growing through the years.

SWOT Analysis⁷

³ See exhibit 2 in appendix

⁴ See exhibit 3 in appendix

⁵ See exhibit 4 in appendix

⁶ See exhibit 5 in appendix

⁷ See exhibit 6 in appendix

The major Papo D’Anjo **STRENGTHS** in the business are:

- **“Made in Portugal”⁸ brand:** nowadays in the US market there is a concern to avoid “Made in China” (and Asian in general) products, as a fight against children’ exploration. By being a “Made in Portugal” brand, consumers have the guarantee that those clothes are not made by children, since Portugal, besides being a small country, is a civilized country.
- **Design and Brand:** In the US market there is no other brand that produces this style of classic European clothes at this high quality level. The brand is therefore perceived as a high quality⁹ and unique brand.
- **The Business Network:** Catherine has a strong network of contacts, which was the starting point for the beginning of Papo D’Anjo business in US, UK and Spain. In order to survive in this segment (high-end apparel), a good business network is fundamental.
- **Presence in Internet:** the brand’s website is very functional and it is very easy to order the products online.
- **Competitive price:** comparing to other brands in the High-end apparel segment (i.e. Channel, Prada or Christian Dior), Papo D’Anjo has very competitive prices.

Papo D’Anjo has also some **WEAKNESSES** that have to be improved or where they should put more effort:

⁸ See exhibit 7 in appendix

⁹ See exhibit 8 in appendix

- **Too focused in the US Market:** this market represents 86% of the brand total sales. If something happen in US (i.e. a new financial crisis), the company could face several problems.
- **Soft legal relation with suppliers:** despite having excellent relationship with the main suppliers, Papo D’Anjo does not have a contract of exclusivity with any supplier or even a contract that guarantees future businesses between suppliers and the company.
- **Low international brand recognition:** apart from the American market, there is a small recognition in all other countries.

Papo D’Anjo is also facing some **OPPORTUNITIES**:

- **American Latin Markets:** in those markets the purchasing power is increasing a lot and the brand fits very well in the Latin American culture. I would suggest that Papo D’Anjo should expand quickly to these markets in order to take advantage of this opportunity.
- **Kiernan Shipka¹⁰:** this ten years old American TV star plays one of the main roles in a famous TV series “Mad Man¹¹”. She usually dresses Papo D’Anjo in famous events. Kiernan wears Papo D’Anjo and therefore the company is divulgated for free. My belief is that the company could benefit by hiring Kiernan Shipka to do some commercial advertising such as TV ads or photo-

¹⁰ http://en.wikipedia.org/wiki/Kiernan_Shipka

¹¹ http://en.wikipedia.org/wiki/Mad_Men

shoot sessions for outdoors. The aim would be to increase the brand awareness in the American market, and consequently to increase sales.

- **Website & Catalog Channel:** although Papo D'Anjo is already available online, the company should have in mind that the internet is one of the most powerful sources of publicity and brand awareness. Given this, Papo D'Anjo should put even more effort in this channel that is constantly growing. Besides the website, Papo D'Anjo has to be up to date with the most recent sources of communication, such as Twitter and Facebook.

Papo D'Anjo has also to protect itself from **THREATS** such as:

- **Attractive Market:** Papo D'Anjo had a profit of \$6,7M in the US market in 2009. The main reason for this profit is the fact that there is no competition in the high-end apparel children clothes regarding the Classic European Cloth style. This market can be very attractive to other companies.
- **Design:** Papo D'Anjo style of some clothes (polos & shirts and shoes) is relatively simple and as a result, very easy to copy. Any mother can easily copy the drawings of these clothes and take them to someone that makes them cheaper...
- **Low switching costs:** although Papo D'Anjo does not have a lot of direct competitors within the segment where they are positioned, the competition in the apparel industry is fierce and constantly increasing. It is very easy for the clients to switch if they are not satisfied with the quality or price of the brand.

- **Chinese competition:** The presence of Chinese companies in the apparel industry is increasing. As Chinese companies usually have lower production costs, they do not have to wait so long to have conditions to compete with the worldwide named brands.

TOWS Analysis¹²

Strengths/Opportunities:

- Use the privileged Catherine's network to find others "Kiernan Shipkas" and invite them to do some Papo D'Anjo advertising like some billboards and publicity on television and magazines. Other possibility is to sign a contract of exclusivity with the little stars.
- Once the internet is a big tool of Papo D'Anjo, I believe that Papo D'Anjo should use it to enter in the American Latin Markets. These markets are extremely developed Internet wise.
- The fact of being a "Made in Lisbon" brand and being seen as a luxury brand that already exist in the US can leverage the Brazilian market. Being a "Made in Lisbon" brand guarantees the quality of the brand and excludes automatically issues like children exploration that "made in Asia" brands are constantly facing. On the other side, being a luxury brand from the US can leverage the Brazilian market once the Brazilian elite loves everything that come from US, specially the luxury brands.

Strengths/Threats:

¹² See exhibit 9 in appendix

- Developing the relationship with suppliers to become exclusive in order to avoid the copy of the design and guarantee that Papo D'Anjo products are unique.
- Using the internet to get closer to the clients. Papo D'Anjo could create a restricted club of clients or organize more events with the clients through the internet in order to increase the awareness of the brand.

Weaknesses/Opportunities:

- A possible expansion into Latin American markets may reduce the US's weight in the business.
- By expanding the brand to the Latin American markets, the brand will get more international recognition that actually is lacking.

Weaknesses/Threats:

- It's very urgent develop the relationship with supplier to avoid the competition of Chinese firms and the threat of the copy. An exclusivity contract would be a tremendous step to the brand future.

Strategic Objectives

The company has one main objective to accomplish in the next five years: **To increase the sales by 50% until the end of 2015.**

How can Papo D'Anjo succeed in this challenge?

- Expanding into new markets, namely the Brazilian and Mexican market.
- Creating more and new collections of clothes, expanding the brand portfolio.

- Improving the newborn clothes collection once the existing one is too small and does not offer a lot of choice to the client.

Brazil Expansion

The main reasons that we can point out why Papo D'Anjo chose to expand to Brazil are the increasing of the brand international recognition and also the increasing of sales, considering that Brazil is one of the biggest growing economies in the world.

Environmental Context

Nowadays, Brazil is the fifth biggest country in the world with a population of one hundred and ninety million. Brazil is also the 8th biggest economy in the world and one of the most solid economies. Brazilian GDP is growing at a pace of 7,5% per year¹³ and the Brazilian luxury segment is in the top 10 bigger luxury markets in the world.¹⁴ Brazilian clients are able to pay the prices that Papo D'Anjo charges. The Portuguese is the official language and the culture is very similar to the Portuguese culture. I reckon Papo D'Anjo would not have adaptation problems.

The clothing industry in Brazil is massive. It is worth \$33 Billion and there are one million people working in this sector.

The main problem that Papo D'Anjo will face by expanding to Brazil will be the importation taxes, which are 14% of the sum between the production cost and 10% of the production cost and the lack of experience in the Brazilian market. Regarding the importation taxes, one of the values that Papo D'Anjo likes to transmit and to mark its marketing positioning is that the prices charged should be the same across the countries

¹³ www.indexmundi.com/brazil/gdp_real_growth_rate.html

¹⁴ www.administradores.com.br

where the company operates, to avoid what happened with *Benetton* in Brazil and is happening with *Zara* in the South American markets. Hence, the margins of Papo D'Anjo in Brazil could be so little that might not compensate the expansion to Brazil. To minimize this problem of high importation taxes and the lack of experience in the Brazilian market I suggest Papo D'Anjo to do a Joint Venture with a similar Brazilian company.

Analysis of the Brazilian Textile Sector¹⁵

The Brazilian textile industry has a historic and decisive weight in the Industrial Development process of the country. It was one of the first industrial sectors being implemented when Brazil was still an empire.

The sector characterizes with companies across all over the country generates millions of jobs. The jobs can be generated directly (production phase) or indirectly (raw materials production and other inputs). This sector also stands out from the others as a stimulator of the creation of other industries like textile machinery, synthetic fabrics from the petrochemical industry, packaging, drugs and anilines. Although the number of workers directly aggregates to the textile production process is undefined, it's estimated at approximately one million people.

Regarding the foreign trade, where the Brazilian sector competes with countries of greater tradition, the sector is one of the most significant from the entire Brazilian industrial sector generating around one billion of dollars per year.

¹⁵ www.abit.org.br

The Textile Sector is formed by 5000 companies, in which only 11% are considered large companies and 21% as small and medium business. Microenterprises reaches 68% of the total, representing the vast majority of the sector.

Concerning the ownership of the capital, the Textile Sector is characterized by being composed of national capital companies once 91% of them belong to Brazilians and only 9% are foreigners.

The Confection Sector is formed by 11000 enterprises, most micro and small enterprises of the so-called Informal Sector.

The Textile Sector is quite diversified comprise various branches of specialization: spinning, weaving, knitting, finishing, trimmings, artifacts, ribbons, woven elastics, lace, embroidery and fabrics.

Regarding the Human Resources, the Textile Sector is the fifth larger employer in the manufacturing industry and this percentage rises when it aggregates the Confection Sector.

In the qualification of Human Resources, Brazil already has a national system of textile education and manufacturing. Nevertheless people employed in the industry, only 0,27% have higher education.

The massive presence of small and medium-sized enterprises in the Textile Sector is another characteristic of this sector. In the Textile area, as a whole, this participation reaches 90% of the number of enterprises. In the segment of spinning and weaving this participation is 83% and 96% in knitting.

Regarding its performance, the Textile Sector represents the second item in the World trade, having achieved numbers around \$120 billion, except trade between countries of Eastern Europe. Brazil participates in this market with a share of approximately 1%, some around \$1,3 billion.

Although data are scarce, it is estimated that 80% of the total of these companies is small, with 40 to 50% working informally, configuring the so-called Informal Economy.

The proliferation of small businesses in the sector of manufacturing has as main purpose the lower investment needed as well the technology of large area compared with the sub-sector of spinning and weaving.

Competitive dynamics of the Textile Sector in Brazil

The identification of competitive forces shows that the textile industry operates between two fronts with higher bargaining power: on the one hand a highly competitive market, supplied by products with very small life cycle, some two months only; and the other side a large number of suppliers that pressure the price down.

For the industry, the supply of raw materials and inputs for production is vital. It is crucial to get the best quality at the lowest price possible if we want to beat the competitors.

Cotton is the main raw-material of Brazilian industries, with an annual consumption of 555000 tones. Cotton represents approximately 30% of the total cost of the finished product, so, once many Papo D'Anjo clothes are made by cotton, if Papo D'Anjo could produce the clothes in Brazil, Papo D'Anjo could get the cotton in Brazil and avoid

importing this raw material. Another source of raw material is the external market. The access to external market is restricted and the purchases subject to taxes.

Incoming Domestic sectors and Competition

More than 50% of textile production in Brazil can be characterized as informal. This phenomenon is repeated in the rest of the world, occurring even in Europe, in countries like Spain or Italy.

Production called informal does not occur at all stages of the production process. In steps such as spinning, weaving, knitting and finishing, the competition are bigger between medium and large enterprises. From the cutting, mainly in manufacturing, coexist large organizations, and medium enterprises, with a huge number of micro enterprises, mostly in informality.

Small and micro enterprises end up "serving" the development effort of product/process, made by the medium and large companies. In other words, the medium and large companies invest in R&D and then, the small and micro enterprises copy what the medium and large companies discovered. The medium and large companies can cover the R&D costs by practicing economies of scales. Other benefit related to the R&D investment is the brand recognition the investing company could gain among the consumers.

The effort of developing new products, more visible the in different labels and collections, requires all research work, which requires overseas travel. In the product development stage is implemented the "noble labor-force" (product manager and stylists) and requires the work of experts in modeling. Only large and medium-sized

enterprises can maintain product departments and product engineering. The others copy usually copy that large and medium-sized enterprises create.

Another factor in favor of maintaining this informal industry is the low purchasing power of most Brazilians. While there are many poor people in Brazil, the informal market will continue to exist

The market for these informal companies was, traditionally, regional. This has been changed with the presence of the "middleman" figure who found room to act also in the textile sector. This element markets mesh and fabric, supplying clothes and putting their finished products. Large companies operate as true training centers, providing manpower for this segment which is parallel.

The vulnerability of large companies is exactly in their own businesses, which usually is synonymous of little flexibility, losing in agility for small and micro companies. Given the size of the company as well as its distribution power, companies can organize huge logistic centers to overcome this flexibility problem.

Brazilian Luxury Consumer

According to *IBOPE*, the Brazilian Luxury consumer is known by being brand lovers. They buy everything from the best known brands and they are also willing to pay premium prices.

Mothers of Class A are the Papo D'Anjo's target and we know that this class is increasing a lot¹⁶, so it is very important for Papo D'Anjo to know where these mothers usually shop. According to a research done by *MCF Consultoria & Conhecimento* about

¹⁶ See exhibit 10 and 11 in appendix

the Brazilian luxury consumer, 56% of the luxury consumers are women and these women concentrate their purchases on Fashion sector. Between the places to shop, street stores and shopping stores are the most wanted¹⁷, so it would be very important if Papo D'Anjo could be present on the most fashion streets and shopping malls.

Brazilian Children's Luxury Market

Children are giving more and more importance to clothes than ever. Nowadays, the decision to buy clothes is their own as oppose in the past, where parents took the buying decision.

Recently, in the second half of the first 21st century decade, the Brazilian Luxury Clothing Market increased again (worth in \$120 Billion) and the child segment is not an exception, it is expanding a lot.

To have a better idea, in São Paulo, the consumption increased 70% in 2007¹⁸ due class A's children (the richest one) who require products with the same status of the ones that their parents buy.

There are more than 48 million children in Brazil, aged zero to fourteen and around 9 million of them live with a familiar income ten times the Brazilian minimum wage (our target). In 2007, 20% of the sales of the luxury market have children as final destination.

The percentages are higher in products for personal use, such as clothing, footwear and accessories and the statistics show that a child under seven or eight years has their tastes well defined and recognized brands of most products it consumes.

¹⁷ See exhibit 12 in appendix

¹⁸ www.abit.org.br

In Brazil, there are few children's brands that could be called as luxury clothes. The mini luxury awakened interest of big brands, through requests made by the parents – buyers of brand for adult. Ronaldo Fraga was one of the first to produce luxury clothes for children. The brand Ronaldo Fraga for puppies was created without great pretensions in 1997, has its own the stores in São Paulo and Belo Horizonte. The stylist Cris Barros decided to launch the Cris Barros Mini and designer Isabela Capeto, made his first collection of children's clothes for girls aged four to ten in 2007. So, we can see that in the Brazilian market, there are already some companies developing children's clothes due to the increase of the market.

The Brazilian Luxury Young Consumer

According to Fagianni¹⁹, strategies to attract consumers from upper classes are always around specific cultural values of the class: differentiation, exclusivity, elegance and sophistication. These features add value to the product and stand when associated to a brand. The design differentiates the luxury product where the superfluous and the utility need to be balanced.

Luxury consumption shall justify their excess through platitudes like "I deserve". Among children, the compulsion of the purchase causes some disorders. Children have the desire to have the (luxury) product before any other child (in the same social group or outside).

According to Linn²⁰, children are in the primary market once they spend their own money already and because they influence the market by guiding their parents in order

¹⁹ Katia Faggianni, "O Poder do Design: da ostentação à emoção", first edition, Thesaurus

²⁰ Susan Linn, "Crianças do consumo: infância roubada", Instituto Alana

to consume the family capital, and they are themselves consumers of the future, in other words, children today has a very great power of persuasion and those who have economic conditions for consuming luxury goods, makes this market one of the most promising and potential.

Children and Parents of the 21st century

A great feature that is being perceived in relation to children is the excess of extra activities. The child of the 21st century has a routine, often fully occupied, and this is a reflection of new families that are emerging.

With the decrease in the number of children and the inability of parents to give more attention to them, the child begins to turn into a domestic dictator, that defines what he wants and how part of the family budget will be allocated the satisfaction of their desires. Through this process, the child enters heavily consumer and thus ends up causing a significant impact on family spending.

Another important factor is the power consumption that they have. There are two major reasons why children are taking decisions at the time of purchase: the first is by information media reach increasingly easy and fast (through television, Radio or Internet) and therefore being more mindful of publicity of good quality. The second reason is the lack of time parents, seeking. Through purchases, look after their children, trying to overcome the affection and dedication are often overlooked by day-to-day.

According to Linn²¹, girls have greater interest in buying clothes than boys, they (girls) choose the clothes, but need the approval of their mothers.

²¹ Susan Linn, "Crianças do consumo: infância roubada", Instituto Alana

To sum up, the luxury market in Brazil is expanding and child demand in the segment is also rising. Considering the aggressive actions of the media, the consumerist mentality was just reaching the children of the 21st century and this reflects the behavior of same, interfering in the market and radically in their purchasing power. This tends to increase the attention of fashion entrepreneurs to this niche market.

Mode of Entry

To begin, I think Papo D'Anjo should go into Brazil through the "front door": São Paulo. São Paulo is well known by the fabulous restaurants, nightlife and fashion shows. Being Papo D'Anjo a Portuguese brand already established in Manhattan, would be definitely a fresh and attractive concept. *Paulistas* (inhabitants of São Paulo) had always loved everything from the American upper class and I believe that Papo D'Anjo would not be the exception, even being a Portuguese brand.

After choosing Sao Paulo as the starting point, it is necessary to decide where in São Paulo Papo D'Anjo should launch their store. Since Papo D'Anjo's target in Brazil would be the mothers from the class A (the richest one). As I already mentioned before, in São Paulo, it is very common to shop in the shopping mall and in street stores. Within all the malls currently in Sao Paulo, I found Iguatemi São Paulo the shopping mall in São Paulo with more potential to receive Papo D'Anjo. Iguatemi São Paulo is probably the most luxurious shopping mall in São Paulo, the one where our target usually shops for clothes for their children. The most exquisite brands have their stores in this shopping mall (Gucci, Louis Vuitton or Channel). It would be very important if Papo D'Anjo could be present in this shopping mall in order to reach the pretended target and to create the brand awareness.

After accomplish the first goal - brand awareness - I reckon that Brazilians will make some research on the brand on internet and start to order Papo D'Anjo clothes by internet (and therefore the Brazilian version of the webpage must be updated...). There are also two other shopping malls located in very rich neighborhoods, which are frequented by class A: Cidade Jardins and Higienópolis. However, these two shopping malls are more “down to earth”, with stores we can see in every shopping mall.

Summing up, all I would suggest Iguatemi São Paulo as the best place to open a Papo D'Anjo's store. Another aspect that one should have in mind, is that Sao Paulo is a huge city (much bigger than Manhattan, for instance) and is characterized by the massive traffic, what suggest that one shop might not be enough. Given this, I would recommend the opening of a second store, in Óscar Freire Street, located in the richest neighborhood of São Paulo, Jardins Paulistas. Óscar Freire is known as the “5th Avenue of Brazil” and, as in Iguatemi São Paulo, all the luxurious brands have their stores there. Despite the quite expensive price of the square meter in Iguatemi São Paulo etand in Óscar Freire Street, I truly believe these two stores could work as flag-ship stores in São Paulo. The perfect location of the two stores will create the brand-awareness Papo D'Anjo pretends.

Joint Venture

I believe it is very important to find a partner in Brazil because it is essential for Papo D'Anjo to have access to a local structure already settled and to the knowhow of the local taxes and Brazilian market. On the other hand the Brazilian partner would benefit from Papo D'Anjo's knowhow in the US and European market, would benefit also from Papo D'Anjo's design and would have a financial participation in a promising international brand that is entering in Brazil.

In the contract agreement, Papo D'Anjo should have an option to acquire the participation of the Brazilian company and therefore, with the acquisition, become the major shareholder. It is also crucial to have in the contract, a clause that prevents a possible competition between the two brands. Papo D'Anjo could help the Brazilian company to develop the Brazilian brand in other markets (Europe and US).

I recommend Papo D'Anjo to do a Joint Venture with a similar Brazilian company that is not already present in the US market and does not have European classic clothes in its portfolio in order to avoid a future competition between the two brands in the segment

Papo D'Anjo's goal is to be associated to luxury and high quality. Hence, the company chosen to do the Joint Venture should be a company already known by mothers of Brazilian Class A and a brand perceived as one of the best in the children segment. Between all the Brazilian children brands I studied, I found that Paola Da Vinci would be the most similar brand to Papo D'Anjo. Paola da Vinci sells home furniture besides baby and children clothes. Regarding Paola da Vinci newborn, baby and kids clothes, the Brazilian brand does not offer exactly the same products of Papo D'Anjo, but is quite similar. Paola da Vinci is also probably the most famous Brazilian children clothes brand and the one with the wider visibility in the Brazilian market. Paola da Vinci is present in the major shopping malls of Brazil and Iguatemi São Paulo is not the exception. Paola da Vinci has also stores in Óscar Freire, in Cidade Jardins and in Higienópolis. Through Paola da Vinci, Papo D'Anjo could easily reach all of the country since Paola da Vinci has already settled in other cities like Campinas and Brasília. I believe Papo D'Anjo could create a company in Brazil, where the major capital would be Brazilian (and here we would rely on Paola da Vinci). In order to do a successful Joint Venture with Paola da Vinci, Papo D'Anjo should create a new

company with Paola da Vinci, 51% (never less) of the capital should be Brazilian (Paola da Vinci) and 49% (never more) should be Portuguese (from Papo D'Anjo) in order to decrease the costs and enjoy the benefits that eventually the Brazilian government could give.

Implementation Plan

Men

With the Joint Venture, Papo D'Anjo will benefit from the knowledge of the Brazilian company in what regards the Brazilian market, so I believe that Papo D'Anjo do not need to send many people to work in Brazil for administration positions. I believe Papo D'Anjo just need one person to represent the company in Brazil in order to answer quickly all the needs the company will face in Brazil. This representation will be responsible to show the products to potential clients, to close new deals and, after the implementation, will be responsible to manage the client. I would suggest inviting the coordinator of the *El Corte Inglés* department stores to be the representation of Papo D'Anjo in Brazil once he already has the necessary experience for this position.

After the implementation, and therefore with the opening of the two stores, Papo D'Anjo will need to have always two employees in each store. Since the stores in Iguatemi São Paulo and in Óscar Freire are open 12 hours per day (10h-22h), Papo D'Anjo will need four people to work in two shifts in each store in two shifts.

Money²²

Besides the initial investment needed to close the deal with the Brazilian company and to set up the business in Brazil, Papo D'Anjo will also face operational costs, human

²² See exhibits 13,14 and 15 in appendix

resources. For the Papo D'Anjo's representative in Brazil, a wage of 6000€ per month plus three trips per year to Lisbon (around 1100€ each), plus the rental of a T2 apartment (around 5000€ per month) and all the living costs (worth in 9000€ per month) would be necessary. Regarding the wage of the store's employees, the minimum wage in São Paulo for this category of employees is R\$ 610²³ (around 254€) per month. In order to retain the employees and to differentiate them to the employees of regular stores, I believe a wage around R\$ 700 per month (around 300€) would be fair enough.

The rental price of a store in Óscar Freire street is on average 245€/m² per month and the the rental price of a store in Iguatemi São Paulo is on average 265€/m²²⁴ per month. A store in São Paulo with 80m² will be enough to be as profitable as a store of 200m² in Lisbon. The store in Óscar Freire could also include the Papo D'Anjo's office in Brazil with 20m². **The expected income statement is in the appendix, see exhibit 16.**

Minute²⁵

Memo²⁶

Conclusion

Based on this report's analysis, it is comprehensible why the expansion to Brazil is so important and necessary to the Papo D'Anjo's future.

²³ <http://www.salariominimo.net/2011/02/10/novo-salario-minimo-em-sp-piso-salarial-para-2011/>

²⁴ <http://noticias.r7.com/economia/noticias/iguatemi-tem-11-aluguel-mais-caro-do-mundo-20100921.html>

²⁵ See exhibit 17 and exhibit 18 in appendix

²⁶ See exhibit 19 in appendix

After five months working in this project, I am able to say that Papo D’Anjo has what is necessary to succeed in the Brazilian Market and is in the right time to take this important step. I truly believe that Brazil is no longer a dream. It is just around the corner!

References

- www.abit.org.br
- www.papodanjo.com
- www.paoladavinci.com.br
- www.abit.org.br
- www.bergdorfgoodman.com
- www.portugalglobal.pt
- www.wikipedia.com
- www.administradores.com.br
- www.iguatemisaopaulo.com.br
- www.ibop.com.br
- www.mcfconsultoria.com.br
- www.salariominimo.net
- BES Investimento
- Banco Central do Brasil
- Philip Kotler, Gary Armstrong, Veronica Wong, John Saunders, “Principles of Marketing”, fifth European edition, 2008, Prentice Hall
- David Besanko, David Dranove, Mark Shanley, Scott Schaefer, “Economics of Strategy”, fifth edition, Wiley
- Katia Faggiani, “O Poder do Design: da ostentação à emoção”, first edition, Thesaurus
- Susan Linn, “Crianças do consumo: infância roubada”, Instituto Alana
- Meio&Mensagem magazine, May 2010

A Work Project, presented as part of the requirement for the Award of a Masters Degree
in Management from the Faculdade de Economia da Universidade Nova de Lisboa

Appendix

“PAPO D’ANJO - INTERNATIONAL STRATEGIC IMPLEMENTATION PLAN TO BRAZIL”

Tomás Manuel Macedo Lousada Loureiro Pipa

Number 590

A Project carried out on the Management course, with the supervision of:

Professora Sónia Dahab

Professor Filipe Castro Soeiro

6th June 2011

Index

Sales Channels	28
Exhibit 1- Organization Structure	29
Exhibit 2- Production Process	29
Exhibit 3- Market Distribution	29
Exhibit 4- Sales per channel	30
Exhibit 5- Historic Sales Revenues	30
Exhibit 6- SWOT Analysis	31
Exhibit 7- “Made in Lisbon” Label	31
Exhibit 8- Positioning Map	32
Exhibit 9- TOWS Analysis	33
Exhibit 10– Private Consumption’s Evolution	33
Exhibit 11– Purchasing Power’s Evolution	34
Exhibit 12– Purchased in a one-month period – “Meio&Mensagem” magazine, May 2010	34
Exhibit 13- Human Resource’s Costs	35
Exhibit 14- Operational Costs	35
Exhibit 15- Initial Investment	35
Exhibit 16- Expected Income Statement	35
Exhibit 17- Minute	36
Exhibit 18- Timeline	36
Exhibit 19– Memo	36
Porter’s Five Forces	37
Value Chain	38

Sales Channels

Trunk Show

It is a sales event where a designer displays and sells new collections to the store personnel or selected customers before made the new collections available to the general public. It is important for the designers once, with the trunk show, the designer can predict which are the products will have more success.

Wholesale and Retail

This channel represents all the corners Papo D'Anjo has in several department stores such as *El Corte Inglés* or *Bergdorf Goodman*. In these corners Papo D'Anjo is responsible for its own merchandising and for the store front of its products in the corner.

Website & Catalog

Papo D'Anjo usually sends catalogs with new collections for its clients. Last year, Papo D'Anjo sent 750 000 catalogs (nine per client in average) to the clients who went to brand's trunk shows, the online clients (the ones who already shop online and have request the catalog) and also to potential clients by buying a list at marketing research companies. In 2009, each catalog sent profited, in average, \$6,25 to the brand.

Exhibit 1- Organization Structure

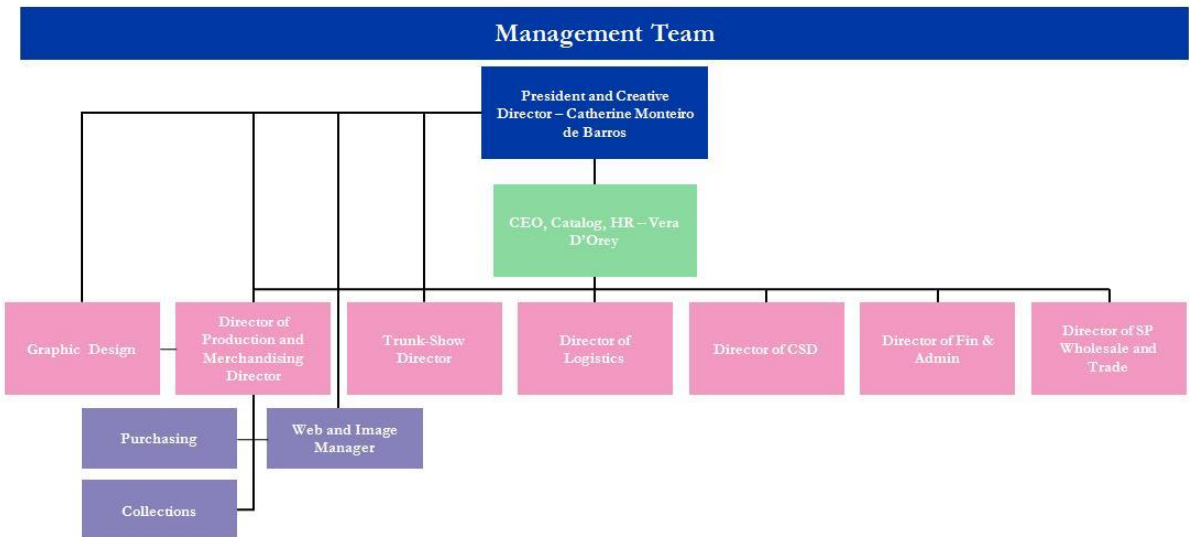


Exhibit 2- Production Process

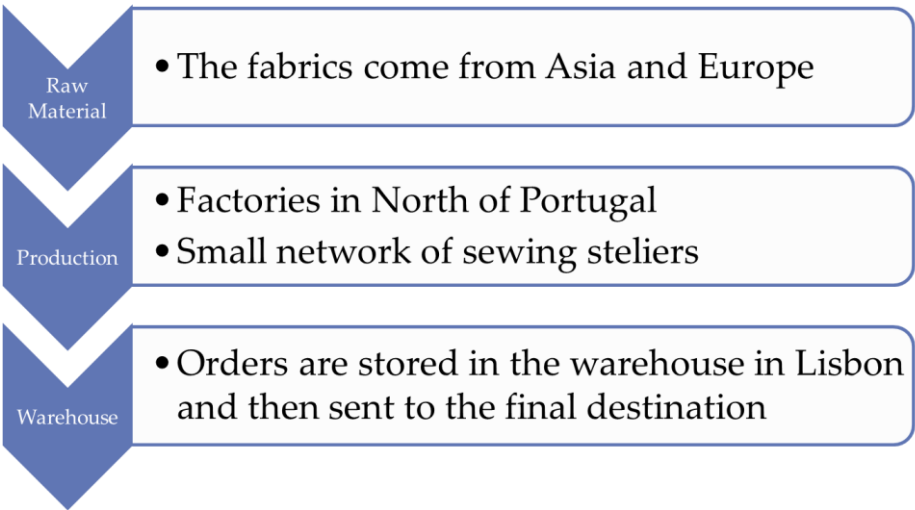


Exhibit 3- Market Distribution

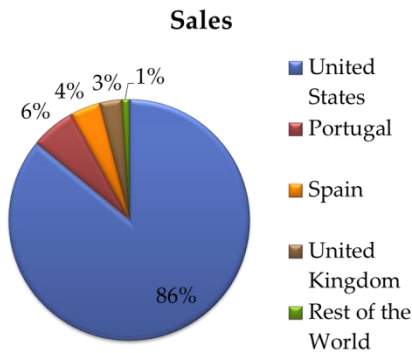


Exhibit 4- Sales per channel

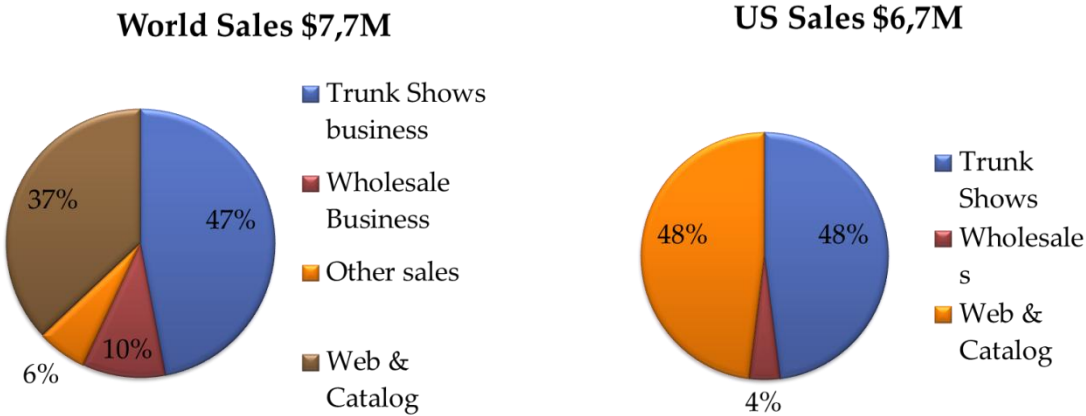


Exhibit 5- Historic Sales Revenues

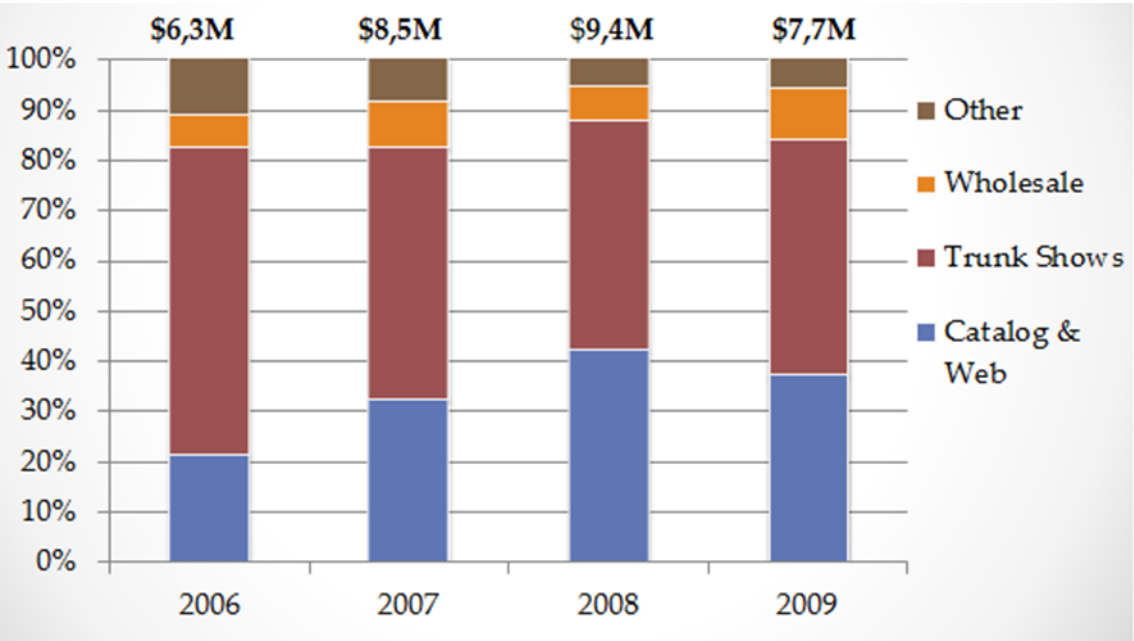


Exhibit 6- SWOT Analysis

Strengths: <ul style="list-style-type: none">-Made in Portugal-Design and brand-Business network-Customer service-Present in the internet-High quality at a competitive price (in the segment)	Weaknesses: <ul style="list-style-type: none">-Soft legal relation with the suppliers-Too focused on US Market-Low international recognition
Opportunities: <ul style="list-style-type: none">-Latin American markets-Kiernan Shipka-Website & catalog channel	Threats: <ul style="list-style-type: none">-Customer can switch between brands-Design is easy to copy-Attractive market-Competition from China

Exhibit 7- “Made in Lisbon” Label



Exhibit 8- Positioning Map



Exhibit 9- TOWS Analysis

Strengths/Opportunities <ul style="list-style-type: none"> - Using the business network to find new “Kiernan Shipkas” and became them exclusive to Papo D’Anjo - Using the internet to attack the latin markets - The fact of being a “made in Portugal” brand can leverage the Brazilian market 	Strengths/Threats <ul style="list-style-type: none"> -Developing the relationship with suppliers to became exclusive and avoid the copy of the design -Using the internet to get closer to the clients
Weaknesses/Opportunities <ul style="list-style-type: none"> - A possible expansion into Latin American markets may reduce the US’s weight in the business - Latin markets can give more international recognition to the brand 	Weaknesses/Threats <ul style="list-style-type: none"> - Urgence to develop the relationship with supplier to avoid the competition of Chinese firms and the threat of the copy

Exhibit 10– Private Consumption’s Evolution

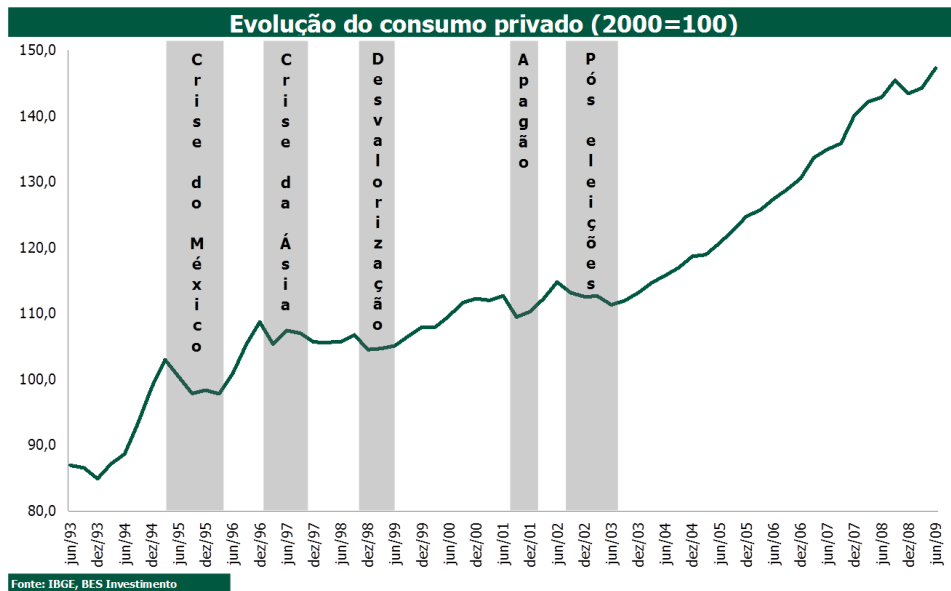


Exhibit 11– Purchasing Power’s Evolution

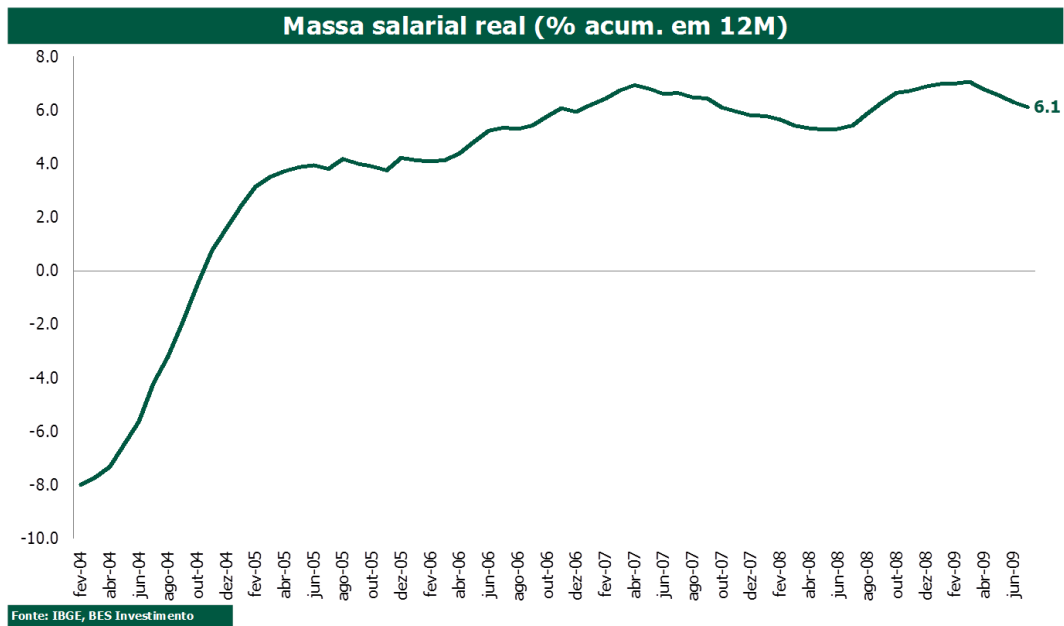


Exhibit 12– Purchased in a one-month period – “Meio&Mensagem” magazine, May 2010

Purchased in a one-month period (except drinks and food)				
	Population	Working Woman	Working Mother	Non-Working Mother
Street Stores	82%	86%	85%	84%
Shopping Centers	63%	63%	60%	57%
Department Stores	48%	53%	52%	46%
Supermarkets	38%	38%	41%	34%
Catalogues	21%	29%	28%	26%
Hawkers	20%	22%	24%	20%
Commercial Galleries (not shopping centers)	23%	23%	23%	21%
Other	15%	14%	15%	15%
Internet	16%	15%	13%	10%
Telesales (by telephone)	5%	4%	3%	3%

Exhibit 13- Human Resource's Costs

Human Resource Costs		
Position	Monthly Salary	Annual Salary
Brand's Representative	-€ 6.000	-€ 84.000
8 store's employees	-€ 2.400	-€ 33.600
Total	-€ 8.400	-€ 117.600

Exhibit 14- Operational Costs

Operational Costs		
Type of Cost	Cost	Cost per year
Rental of Óscar Freire's store	-€ 21.200	-€ 254.400
Rental of Iguatemi São Paulo's store	-€ 19.200	-€ 230.400
Rental of house	-€ 5.000	-€ 60.000
Ticket Plane	-€ 1.100	-€ 3.300
Representative's Expenditures per month	-€ 9.000	-€ 108.000
Total	-€ 55.500	-€ 656.100

Exhibit 15- Initial Investment

Initial Investment	
Type of Cost	Cost
Legal Costs	-€ 5.000
Joint Venture	-€ 250.000,00
Investment on Store's	-€ 100.000,00
Total	-€ 355.000

Exhibit 16- Expected Income Statement

	2011	2012	2013	2014	2015
Sales	€ -	€ 750.000,00	€ 1.500.000,00	€ 2.000.000,00	€ 3.000.000,00
Sales Cost (30% of sales)	€ -	-€	-€	-€	-€

		225.000,00	450.000,00	600.000,00	900.000,00
Operational Costs	€ -	-€ 656.100,00	-€ 656.100,00	-€ 656.100,00	-€ 656.100,00
Human Resources Costs	€ -	-€ 117.600,00	-€ 117.600,00	-€ 117.600,00	-€ 117.600,00
Marketing Costs	€ -	-€ 100.000,00	-€ 100.000,00	€ -	€ -
Depreciation Costs	€ -	-€ 26.500,00	-€ 26.500,00	-€ 26.500,00	-€ 26.500,00
EBITDA	€ -	-€ 375.200,00	€ 149.800,00	€ 599.800,00	€ 1.299.800,00
Financial Results	€ -	-€ 22.016,00	-€ 18.032,00	€ 22.464,00	€ 100.452,00
Result Before Taxes	€ -	-€ 397.216,00	€ 131.768,00	€ 622.264,00	€ 1.400.252,00
Taxes (25%)	€ -	€ -	€ 32.942,00	€ 155.566,00	€ 350.063,00
Net Results	€ -	-€ 397.216,00	€ 164.710,00	€ 777.830,00	€ 1.750.315,00

Exhibit 17- Minute

Papo D'Anjo's internationalization to Brazil can last, until start selling, 7 months. I believe the negotiation with the Brazilian brand and the business set up would last at maximum 6 months. Two months would be enough to open the first store and give formation to the Brand's representative. The opening of the store in the Iguatemi São Paulo shopping can last, at maximum, six months, once it is possible to wait for the availability of the desired store in Iguatemi São Paulo.

Exhibit 18- Timeline

Activity	Dependency
Activity 1: Set up the business (can last 6 months)	
Activity 2: Representative's Formation (1 month)	activity 1
Activity 3: Negotiation with Iguatemi São Paulo (can last 4 months)	activity 1
Activity 4: Open store in Óscar Freire Street (1 month)	activity 1
Activity 5: Open store in Iguatemi São Paulo (1 month)	activity 3

Exhibit 19– Memo

Strategic Theme	Objectives	Measurement	Target	Initiative
Financial	Increase sales revenues	Sales volume, profitability	Company's total sales revenue has to double until 2015	Enter in São Paulo
Customer	Create brand awareness in Brazil, reach new clients	Level of awareness and questionnaires (market study)	Have 25% of Papo D'Anjo Total Sales revenues in Brazil in 2015. Have 70% of awareness among Class A mothers.	Open stores in the heart of São Paulo
Internal	Promote a Papo D'Anjo's employee in Portugal to the brand's representative in Brazil	Give formation	Close deals and hire 8 employees for the stores	Training, Recruiting
Learning	Fast implementation	Time of implementation	7 months	Adapt an Implementation Model

Porter's Five Forces

Porter's Five Forces

Threat of new entrants - LOW

- High initial costs
- Strong competitors scare new entrants

Threat of substitutes - HIGH

- Good brands with low prices
- Crisis

Bargaining Power of Suppliers- MEDIUM

- Supplies many brands
- No exclusivity
- Good network are crucial

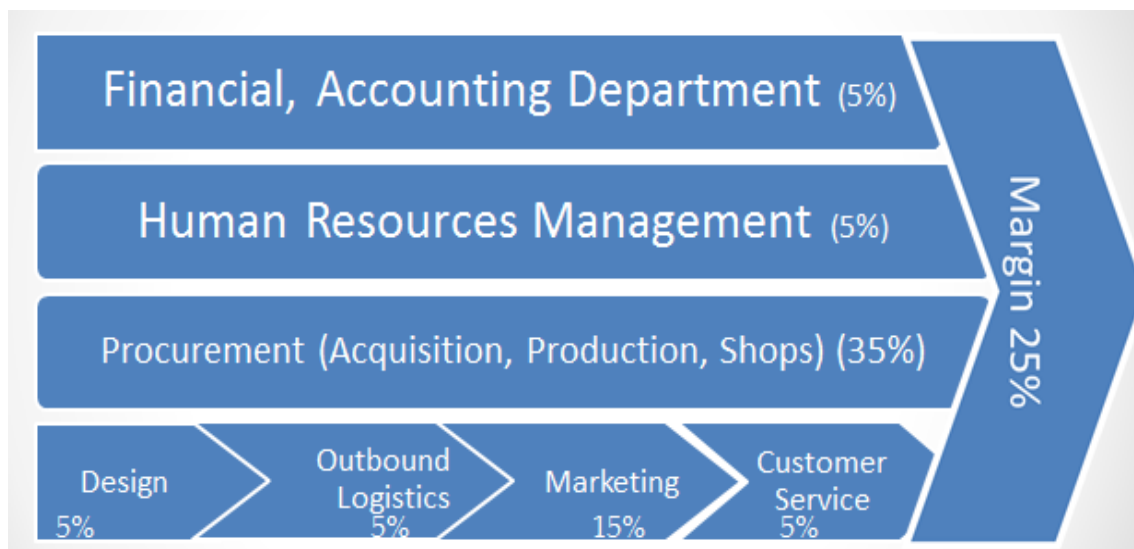
Bargaining Power of Buyers- HIGH

- Easy to shop
- Easy to compare price
- Easy to switch companies

Industry Rivalry – VERY INTENSIVE

- Large Corporations
- Undetermined number of players
- Many strong competitors
- More and more competitors from the emergent countries

Value Chain



By doing an analysis of the Value Chain chart, we can see that there are four activities performed by Papo D'Anjo that add value to the final product. These primary activities are: Design, Outbound Logistics, Marketing and Customer Service. Regarding the secondary activities, two of them are performed by Papo D'Anjo: Financial and

Accounting Department and the Human Resources Management and the remaining, Procurement, are performed by companies subcontracted by Papo D'Anjo.